

STATE OF TENNESSEE

Office of the Attorney General



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OFFICE OF THE
EXECUTIVE SECRETARY

ANDY D. BENNETT
CHIEF DEPUTY ATTORNEY GENERAL

LUCY HONEY HAYNES
ASSOCIATE CHIEF DEPUTY
ATTORNEY GENERAL

PAUL G. SUMMERS
ATTORNEY GENERAL AND REPORTER
Reply to:

Consumer Advocate and Protection Division
Attorney General's Office
P.O. Box 20207
Nashville, TN 37202

MICHAEL E. MOORE
SOLICITOR GENERAL

425 FIFTH AVENUE NORTH
NASHVILLE, TN 37243-0485

TELEPHONE (615) 741-3491
FACSIMILE (615) 741-2009

May 21, 2002

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Petition of Chattanooga Gas Company
for Approval of Change in Purchase Gas
Adjustment
Docket No. 02-00383

Dear Mr. Waddell:

Enclosed is an original and thirteen copies of the Direct Testimonies of Consumer Advocate Division witnesses, Robert T. Buckner, Coordinator of Regulatory Analysts and Michael D. Chrysler, Regulatory Analyst, in the above-referenced matter. Copies are being furnished to counsel of record for interested parties.

Sincerely,

Vance Broemel

VANCE BROEMEL
Assistant Attorney General

cc: Counsel of Record
55259

POSTED
5/21/02

Before the

TENNESSEE REGULATORY AUTHORITY

**IN RE: PETITION OF CHATTANOOGA GAS
COMPANY FOR APPROVAL OF CHANGE
IN PURCHASE GAS ADJUSTMENT
DOCKET NO. 02-00383**

**DIRECT TESTIMONY
OF
R. TERRY BUCKNER**

May 21, 2002

1 **Q. Please state your name for the record.**

2 A. My name is Robert T. Buckner ("Terry").

3

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by the Consumer Advocate and Protection Divi-
6 sion ("CAPD") in the Office of the Attorney General for the State of
7 Tennessee as the Coordinator of Regulatory Analysts.

8

9 **Q. How long have you been employed in the utility industry?**

10 A. I have been employed within the utility industry for
11 approximately twenty-five years. Before my employment with the
12 Attorney General, I was employed with the Tennessee Public Service
13 Commission ("Commission") as a financial analyst for approximately
14 six years. Prior to my employment with the Commission, I was
15 employed by Telephone and Data Systems ("TDS") for eight years
16 and the First Utility District of Knox County for three years.

17

18 **Q. What is your educational background and what degrees do you**
19 **hold?**

20 A. I have a Bachelors degree in Business Administration from the
21 University of Tennessee, Knoxville with a major in Accounting. I am
22 also a Tennessee Certified Public Accountant and a member of the

1 American Institute of Certified Public Accountants. Additional
2 educational background with respect to my qualifications is provided
3 in Exhibit No. 1 (Attachment A).
4

5 **Q. Would you briefly describe your responsibilities as a Regulatory**
6 **Analyst since your employment with the CAPD?**

7 A. I prepared testimony and exhibits as an employee with the
8 Commission before becoming a member of the CAPD. My
9 responsibilities have not changed significantly since becoming
10 employed with the CAPD.
11

12 **Q. What is the purpose of your testimony before the Tennessee**
13 **Regulatory Authority ("TRA")?**

14 A. The purpose of my testimony is to present opposition to the tariff
15 as proposed by Chattanooga Gas Company ("CGC") in TRA Docket
16 #02-00383. CGC indicates the proposed tariff "...changes the
17 existing PGA (Purchased Gas Adjustment) rider by establishing an
18 Experimental Fixed Rate PGA Rider ('FRT')."¹
19
20

¹Page 1 of Petition for Approval of Change in Purchased Gas Adjustment filed April 8,
2002.

1 **Q. Please address the reasons for your opposition to CGC's**
2 **proposed FRT.**

3 A. Simply put, CGC's proposed FRT includes a risk premium and
4 other pro forma risk protection as additives to the commodity cost of
5 gas charged to the consumers. Additionally, the FRT is not optional
6 for residential and commercial consumers. Therefore, CGC's
7 proposed tariff filing is not prudent for the consumers and is opposed
8 by the CAPD.

9
10 **Q. Please explain your issue with the risk premium as applied in**
11 **CGC's proposed FRT.**

12 A. The risk premium is defined as, "...the cost for risks that are
13 assumed by the Company."² According to CGC, the "...risk burdens
14 that are currently recovered automatically through the PGA process
15 that will now be transferred to the Company's affiliate in order to
16 make the Fixed Rate PGA feasible."³ The risk premium is determined
17 or calculated through "...the utility's authorized rate of return of
18 9.08% and applying it to all other costs identified in the Fixed Rate
19 PGA."⁴ Based on CGC's last submitted iteration of the FRT, the risk

²William H. Novak testimony, page 8, lines 6-7.

³Id, page 8, lines 10-12.

⁴Id, page 9, lines 19-20.

1 premium is approximately \$.0532 per Ccf.

2 The CAPD's opposition to the risk premium is that it provides
3 compensation to CGC which is not based on actual costs. This is a
4 significant departure from historical rate procedures for setting gas
5 commodity costs. Prior to the existing PGA and WNA ("Weather
6 Normalization Adjustment") riders, CGC's gas rates were based on
7 actual or known costs at a specific point in time. The gas companies
8 bore all the risks prospectively. If gas commodity costs subsequently
9 declined, the gas companies profited. If the gas commodity costs
10 increased, the gas companies had the prerogative of filing a rate case
11 to recover increased gas commodity costs for a future earnings period.
12 While CGC's witness does provide two specific examples of risks,
13 demand costs and Federal Energy Regulatory Commission ("FERC")
14 rates, the actual quantification of those risks is not provided and no
15 other specific risks are identified. In fact, CGC concedes that "...the
16 probability of these risks materializing is relatively low."⁵
17 Shareholders and investors by nature are basically risk averse, while
18 at the same time attempting to maximize their returns. Therefore,
19 CGC's customers are being asked to pay a risk premium for risks that
20 either are unknown or cannot be quantified or may not materialize at
21 all. Based on the latest proposed FRT iteration, CGC is proposing

⁵Id, page 9, lines 11-12.

1 their residential customers pay approximately \$.64 per Ccf for the
2 twelve months ended September 2003. Over the latest eleven month
3 period from May 2001 through March 2002, however, the rate per
4 Ccf exceeded the proposed FRT rate of \$.64 for only one month in
5 the period.⁶ The average rate per Ccf for the same period is between
6 \$.58 and \$.59.⁷ As affirmed through data requests in CGC's
7 previously proposed FRT filing in TRA Docket #01-00761,⁸ CGC
8 would profit in two of three weather scenarios. In all likelihood, the
9 proposed FRT in this docket would replicate the same result.

10 In addition, the structure of the proposed FRT provides no real
11 incentive for CGC's affiliate, Sequent Energy Management, LP
12 ("Sequent"), to obtain the lowest possible gas commodity costs.
13 Sequent is currently the gas provider for CGC's customers. At this
14 time, CGC will not take bids from other suppliers for the FRT.
15 Further, CGC believes "...that any interest by the TRA in a bidding
16 process for the Company's gas procurement responsibilities would
17 need to be considered in a separate generic rulemaking docket for all
18 gas utilities."⁹ Although no other gas utility in Tennessee is offering

⁶Response to CAPD Data Request No. 1, Items 1-2.

⁷Responses to CAPD Data Requests No. 1, Item 3 and No. 2, Item 11.

⁸Response to TRA Staff Data Request No. 1, Item 5.

⁹Response to TRA Staff Data Request No. 1, Item 2.

1 a FRT, CGC does want the TRA to approve their proposed FRT
2 without being subject to a bidding process at this time. Also, CGC
3 wants a waiver of the audit of prudence of gas purchases under
4 Section 1220-4-7-.05 of the PGA Rule.¹⁰ Consequently, there is no
5 accounting mechanism which will "...provide a complete gauge of the
6 Fixed Rate PGA's success."¹¹ With the proposed FRT, however, it is
7 known that the greater the gas commodity costs are, then the risk
8 premium paid by CGC's customers to Sequent increases accordingly.
9

10 **Q. Please explain your issue with the other risk protection additives**
11 **as applied in CGC's proposed FRT.**

12 A. The proposed FRT enumerates two specified risk protection
13 additives. The first of which is, "...a financial 'collar' around them,
14 designated by the variable C_1 in order to hedge these volumes for the
15 difference between normal and actual weather."¹² Based upon the
16 latest FRT iteration, this **estimated** weather collar amounts to
17 approximately \$2.5 million or \$.028 per Ccf.

18 The second specified risk protection additive is "... C_2 ...the cost
19 of obtaining a financial collar to guard against the effects of weather

¹⁰CGC Petition, page 5, paragraph 5.

¹¹Response to CAPD Data Request No. 2, Item 7.

¹²Novak testimony, page 4, lines 6-8.

1 on the recovery of demand cost.”¹³ Based upon the latest FRT
2 iteration, this **estimated** demand collar amounts to \$.74 million or
3 \$.008 per Ccf. With both additives, the customers are paying for a
4 risk that may or may not occur, further moving the price of gas away
5 from actual cost. In summary, the risk premium and the risk
6 protection additives total approximately \$.09 per Ccf or based on the
7 latest iteration of the proposed FRT, a 16% mark-up over estimated
8 costs.

9
10 **Q. Please explain your issue with the non-optional aspect of CGC’s**
11 **proposed FRT.**

12 A. The stated motive of the proposed FRT is to protect CGC’s
13 customers from gas price volatility.¹⁴ CGC cites the well-known
14 price volatility which occurred in the winter of 2001. The winter of
15 2001 has been deemed, “The Perfect Storm” by one natural gas
16 expert. The proposed FRT is the insurance for CGC’s customers
17 “...should natural gas wholesale prices again increase
18 dramatically...”¹⁵ It does not, however, protect the customers from
19 high natural gas bills due to a colder than normal winter or an

¹³Id, page 6, lines 8-9.

¹⁴CGC Petition, page 3, paragraph 4.

¹⁵Id, page 3, paragraph 4.

1 extremely cold winter. The price per Ccf under the proposed FRT
2 may be reasonable in those circumstances, but lower than normal
3 temperatures will necessitate higher usage. Consequently, is it
4 reasonable for the TRA to have the policy of asking CGC's customers
5 to pay for insurance they do not desire and is based on a recent
6 aberration of the gas market? The CAPD contends the answer is no.
7 Also, since any undercollection/overcollection can be recovered in
8 future periods through the Actual Cost Adjustment ("ACA"), then the
9 **existing** PGA offering of CGC can eliminate price volatility for a
10 twelve month period. Additionally, there is no evidence that a
11 majority or even a significant number of CGC's customers are
12 desiring a FRT or that those who desire seemingly a FRT have been
13 fully informed of the merits/faults of a FRT. CGC's witnesses admit
14 that the proposed FRT does not guarantee a lower total cost to the
15 customer over a twelve-month period.¹⁶ In fact, the proposed FRT is
16 not actual gas commodity cost. CGC is currently **guaranteed** to
17 recover all of their gas commodity costs.¹⁷ By their own statement,
18 the proposed FRT "...is a novel proposal that has never before been
19 attempted by any other gas utility in Tennessee."¹⁸ This risky scheme

¹⁶Buie Testimony, page 2, lines 6-7, Novak testimony page 11, line 18.

¹⁷Response to CAPD Data Request No. 2, Item 11.

¹⁸Response to CAPD Data Request No. 1, Item 7.

1 should not be mandated by a utility monopoly or a government entity,
2 but accepted by informed consumers of their own volition. While the
3 CAPD is not against CGC earning a just and reasonable return, the
4 proposed FRT is a profit-making instrument of Sequent at the
5 expense of CGC's customers. Therefore, based on the evidence, the
6 proposed FRT should be denied by the TRA.

7
8 **Q. Does this conclude your testimony?**

9 **A. Yes, it does.**

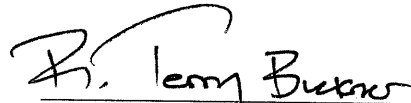
BEFORE THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE

IN RE: PETITION OF CHATTANOOGA GAS
COMPANY FOR APPROVAL OF CHANGE
IN PURCHASE GAS ADJUSTMENT

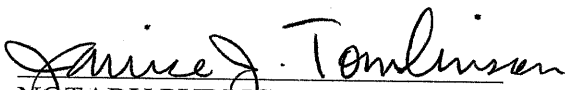
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) DOCKET NO. 02-00383
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AFFIDAVIT

I, R. Terry Buckner, Coordinator of Analysts, for the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.


R. Terry Buckner

Sworn to and subscribed before me
this 21st day of May, 2002.


NOTARY PUBLIC

My commission expires: 1/25/2003

Attachment A

Robert T. Buckner (Terry)

Coordinator of Regulatory Analysts

Office of the Attorney General for the State of Tennessee

Consumer Advocate and Protection Division

Additional Education Background:

Micro-Computer Training, **University of Wisconsin, Madison**

Cost Separations School, **United States Telephone Association, San Diego**

Rate Case School, **Arthur Andersen LLP, Chicago**

Telecommunications Conference, **University of Georgia, Athens**

NARUC Conference, **Michigan State University, Lansing**

Management Training Seminar, **Vanderbilt University, Nashville**

Interstate Access Settlements, **NECA, Whippany, N.J.**

SEARUC Conferences, **Birmingham, AL. and Charleston, S.C.**

Telephone Plant Accounting Program, **Ernst and Young LLP, Atlanta**

Before the

TENNESSEE REGULATORY AUTHORITY

**IN RE: PETITION OF CHATTANOOGA GAS
COMPANY FOR APPROVAL OF CHANGE
IN PURCHASE GAS ADJUSTMENT
DOCKET NO. 02-00383**

**DIRECT TESTIMONY
OF
MICHAEL D. CHRYSLER**

May 21, 2002

1Q-1 **Please state your name for the record.**

2A My name is Michael D. Chrysler

3

4Q-2 **By whom are you employed and what is your position?**

5A I am employed by the Consumer Advocate and Protection Division ("CAPD") in the
6 Office of the Attorney General for the State of Tennessee as a Regulatory Analyst.

7

8Q-3 **How long have you been employed in the utility industry?**

9A Approximately 30 years. Before my employment with the Attorney General, I was
10 employed with Terre Haute Gas Corporation for approximately 2 ½ years and Northern
11 Indiana Public Service Company (NISOURCE) for 24 years.

12

13Q-4 **What is your educational background.**

14A I have a Bachelors degree in Business Administration From Ft. Lauderdale University
15 (1970) with a major in Accounting. Additionally, I have attended numerous "outside"
16 training classes including Arthur Andersen Rate Case School, American Gas Association
17 Rate Case School, and a mini MBA school offered to NIPSCO Senior Management (and
18 invited staff) provided by Purdue University Northwest.

19

20Q-5 **Describe your work experience.**

21A Before joining the Consumer Advocate and Protection Division, I was employed by Terre
22 Haute Gas Corporation as an Assistant Office Manager, with NIPSCO in various

1 positions in the Customer Accounting, Rate and Contract, Strategic Planning, Consulting
2 Services, and finally as Principal of Electric Business Planning Departments.

3

4 As a Regulatory Analyst I am responsible for analysis and development of utility issues as
5 assigned.

6

7Q-6 **What is the purpose of your testimony before the Tennessee Regulatory Authority**
8 **("TRA")?**

9A I will comment on the conclusions presented by Chattanooga Gas' witness Ms. Beverly
10 Wright.

11

12Q-7 **Have you had an opportunity to view the three (3) focus group video presentations**
13 **(Chattanooga Gas' Exhibits, BW - 2a, BW - 2b, and BW - 2c) and written responses**
14 **completed by focus group participants from which conclusions were developed by**
15 **Ms. Wright?**

16A Yes, I have viewed the videos of the focus group presentations and have received copies
17 of the written responses completed by the group participants.

18

19Q-8 **Are you concerned about the conclusions reached by Ms. Wright's testimony?**

20A Yes, Ms. Wright describes the nature and purpose of the focus group in lines 12 - 19 on
21 page 2 of her testimony: " a focus group is a form of qualitative research and a means of
22 obtaining opinions related to a specific topic" (as published by the American Marketing

1 Association) but further states on page 5 lines 6 - 10 that the results and conclusions of
2 this focus group **are not necessarily representative of the Company's customer body.**

3
4 In Ms. Wright's own testimony states that the conclusions reached by Ms. Wright only
5 apply to the three groups of approximately 10 participants each and are not representative
6 of the Chattanooga customer base. It would follow that if the results and conclusions of
7 the focus group are not representative of the customer base that the, "conclusions"
8 developed by Ms. Wright on page 6 of her testimony are of limited value.

9
10Q-9 **Please explain your attachment, Exhibit C-1.**

11
12A Exhibit C - 1 is a brief synopsis that indicates that in cases where "Fixed Pricing plans"
13 were introduced, they were only applicable at the customers' option and have been
14 limited in scope by the state regulatory commission. Thus, Chattanooga Gas' plan, with
15 its imposition of a fixed PGA on customers, is an extreme position and is clearly counter
16 to the general practice of giving customers the option of choosing or rejecting a fixed rate
17 PGA.

18
19Q-10 **Please explain your attachment, Exhibit C-2**

20
21 Exhibit C-2 provides some definitive quantification as to the "Choosing" or "not
22 choosing" the fixed rate proposal. My analysis of the completed surveys indicate that no

1 more that 11 of 30 participants would choose the Chattanooga Gas proposal.

2

3Q-11 **Does this complete your testimony?**

4

5A Yes, it does.

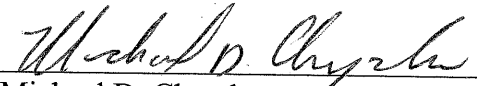
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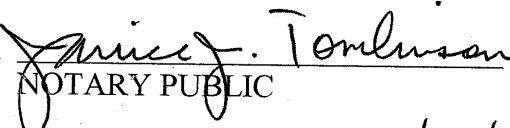
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AFFIDAVIT

I, Michael D. Chrysler, Regulatory Analyst, for the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.


Michael D. Chrysler

Sworn to and subscribed before me
this 21st day of May, 2002.


NOTARY PUBLIC

My commission expires: 1/25/2003

COMPANIES WITH FIXED PRICING OPTIONS

EXHIBIT C - 1

Company Name - State	"Fixed" Program Available?	Is the "Fixed" Program Mandatory or Optional?	Docket Number
Northern Utilities - <i>New Hampshire</i>	Yes, capped at 30% of customer base	Optional	
Energy North - <i>New Hampshire</i>	Yes, capped at 30% of customer base	Optional	
Equitable Gas - <i>Pennsylvania</i>	Yes, pilot program limited to 60,000 customers - total 250,000 customer base	Optional	Docket # R - 00016132
Baltimore Gas & Electric - <i>Maryland</i>	Yes - Filed this Spring	Optional	Supplement 292 to PSC Md. G-9 Fixed Price Gas Commodity Option
NIPSCO - <i>Indiana</i>	Price Protection Service - currently about 30,000 customers - 5% of customer base	Optional	
NICOR Gas - <i>Illinois</i>	Yes	Optional	

SYNOPSIS OF QUESTIONNAIRE RESPONSES
Chattanooga Gas Docket 02-00383

Exhibit C-2

<u>Attendee</u>	<u>Would Choose/ Would Not Choose</u>	<u>Explanation of Answer Choosing/Not Choosing</u>
12-5	Would Choose	In favor - again I think it would be easier on the gas company - maybe if they could get a better price for a year at a time the savings would be passed along to the customer
12-6	Would Choose	At this point, I would say that I am in favor of the proposed method because it would allow for forecasting and budgeting more effectively
12-9	Would Choose	Inf favor. It could stop the sharp raises in prices even though you would never have a lower bill
6-2	Would Choose	I'm in favor. I don't like surprises. I'd rather have a level bill throughout the year. That's why I chose budget billing.
6-3	Would Choose	In favor if that is what is best
6-4	Would Choose	In favor - explained above- less variance in total amount of bill
8-6	Would Choose	In favor
8-7	Would Choose	I would be in favor because it would be easier to know how much your bill would be based on usage
8-9	Would Choose	In favor - anything that ____ stop anoying questions by ____ customers. More satisfied customers can ____ their ____.
6-1	Would Choose ?	I am in favor of any changes the company chooses to make that will help them control their costs and keep the individuals bills as low as possible. If it helps do that I am in favor of it.
8-8	Would Choose ?	In favor Price should go down in the long run

SYNOPSIS OF QUESTIONNAIRE RESPONSES
Chattanooga Gas Docket 02-00383

Exhibit C-2

12-1	Would Not	Indifferent cause the gas Co will do what it wants
12-2	Would Not	I would not be able to say until I know the financial ramification to my company
12-3	Would Not	I just think we would pay less by method we are using now
12-4	Would Not	Against see above - "probably not that different... so why change if the direction if cost is likely to rise"
12-7	Would Not	Against! I like sticking to same thing unless change is really better. People can use the existing equal monthly payment plan already in place if they want to equal out their bill.
12-8	Would Not	I guess I'm pretty indifferent. Either way the utilities will have to be paid. I'd need to see some analysis from other studies to see if it would be in my advantage or at the Gas Co's advantage
12-10	Would Not	I want to hear more evidence to support the proposed method before making a definite decision for or against. Right now I would say I am in the middle of the road.
6-5	Would Not	Against. If we are paying the actual price per unit now, then why change that charge with a 10% increase when the gas co. is making their money on service and now wants to on gas.
6-6	Would Not	Against. The gas co. is the big winners wither way - you're going to charge me what it costs you - if not this year, then next yr. To make up for a loss. If you have a "profit" situation you'll pocket it in addition to the service fee. It will end up costing me more overall.
6-7	Would Not	Because we get only SS# check and don't want to pay all year.

SYNOPSIS OF QUESTIONNAIRE RESPONSES
Chattanooga Gas Docket 02-00383

Exhibit C-2

6-8	Would Not	Against - I would have to see historical data as the proposed method. Maybe I would feel more committed if this was explained.
6-9	Would Not	Against - see #3: "Very different as to long term cost to cust. And profit to company"
6-10	Would Not	Between indifferent to against. I really don't care ___ I'll pay just like everyone else. But, "if its not broke don't fix it" and right now I believe comfort and familiarity is key to a company that doesn't have a customer service center in the community it serves
6-11	Would Not	Indifferent - Because we have to pay for it or the gas co. just turns you off!
8-1	Would Not	Not sure - there must be ___ ___ regarding the proposed method before I can make a fair judgement.
8-2	Would Not	I would need to know what the average price per unit is for an entire yr. ___ compared to the proposed fixed price per unit.
8-3	Would Not	Indifferent It will not impact me a great deal since gas is not my primary source of heat
8-4	Would Not	Between in favor & indifferent because I can't predict the future & I'm not an expert, but it appears to be a good plan in theory
8-5	Would Not	I tend to be against the proposed method because I see it as being more expensive. Our weather is such that most winters are mild and costs would be lower with the current method.